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SUBJECT: KUWAIT STOCK EXCHANGE: A BUBBLE BURSTING OR MARKET CORRECTION?

REF: A. KUWAIT 000226

[1](#)B. 05 KUWAIT 4644

[1](#)C. 05 KUWAIT 4552

[1](#)1. (U) The Kuwait Stock Exchange (KSE) Price Index appears to be experiencing a long-anticipated correction (see ref B) after unprecedented growth over the past five years. KSE experienced its heaviest loss on March 8, dropping 450 points at one point before closing the trading week at 10,705 points, down 2% for the day and 6.6% for the week. The drop sparked fears of a market crash similar to the infamous 1982 Souk Al-Manakh crash.

[1](#)2. (U) The Index has been generally declining since February 21, and has shed 11.4% of its value from the historical high of 12,100 points, reached in early February shortly after the selection of the new Amir (see ref A). All five major GCC bourses have now dipped below their 2005 closing figures, losing approximately \$200 billion in market capitalization since the start of the year.

[1](#)3. (U) Local newspaper reports and Post interlocutors attribute the recent losses to three main factors: Saudi and other Gulf investors pulling their money out in order to recover from losses in the Saudi and other GCC markets; investors selling shares and hoarding cash in anticipation of a few upcoming IPOs; and a number of companies choosing to distribute dividends in shares rather than in cash.

[1](#)4. (U) The unanticipated KES drop prompted disgruntled Kuwaiti investors to demonstrate peacefully outside KSE headquarters to protest their losses and to demand GOK intervention in the market. GOK reluctance to intervene was short-lived as the government's main investment arm, the Kuwait Investment Authority (KIA), announced at the end of trading on March 8 that it would inject \$200 million into the market. According to a KSE official, the KIA cash injection will be gradual and will help bolster investor confidence. In addition to KIA's anticipated intervention, the Kuwait Fund for Arab Economic Development (KFAED), another prominent GOK entity, also announced its intention on March 11 to inject approximately \$341 million to bolster the market.

[1](#)5. (U) Wednesday's losses have also prompted the National Assembly to seek a special parliamentary session to discuss the recent developments, including possible market reforms (see ref C). Local press reports note that NA Speaker Jassim Al-Khorafi has agreed to hold a session on Tuesday, March 15. The GOK, in an effort to downplay the recent events, has declined to attend the special session.

Comment

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[1](#)6. (U) The market's decline, although a loss for investors, was not unexpected given the much anticipated (and long overdue) market correction as forecasted by Embassy interlocutors and financial analysts. Perhaps more importantly, the recent public outcry and demands for government intervention point to an underlying expectation among Kuwaiti investors that the government is ultimately responsible for ensuring the continued profitability of the stock market as another pillar of the country's welfare system. This sentiment was evident in the calls for government intervention made by protestors and their supporters in parliament. Some opposition groups in parliament could stand to benefit politically from any perceived negligence by the GOK in ensuring financial returns.

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